

Tips for Having Compensation Conversations



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The Importance of Effective Compensation Conversations

It is important to have effective compensation conversations so that the employee can leave the discussion feeling positive, informed, motivated and appreciated. This not only includes what information should be communicated, *but also how the information is delivered*. Focusing on delivering information in a manner that is sensitive and empathetic, yet still clear and direct, will be more effective and accepted by most employees in a positive way.

Although not all compensation conversations are difficult, this guide provides some tips and techniques to handle the more challenging conversations. The information can be used to help alleviate people leader's anxiety and allow them to be more confident and prepared when having these conversations.



70%
**of surveyed
managers**

admitted they are uncomfortable having challenging conversations with employees, including those related to compensation

-Lauren Bidwell. *World at Work. Comp Talk 101*

How Compensation is Determined

Salary ranges are determined by matching University benchmark positions to benchmarks in salary surveys. Once the benchmark position is matched, the midpoint of the salary range is established at the 50th percentile of the market data. Employee's placement in salary range is then based on additional employee-specific components such as the employee's education, related experience and performance.

Using the salary range

- Minimum = Meets minimum qualifications
- 25th % = Meets or slightly exceeds qualifications
- Midpoint = Fully proficient with good performance
- 75th % = Top performers with advanced experience & skills
- Maximum = Long term with progressive experience, advanced expertise, consistently high performance, and very seasoned in career

For example:

Min	25 th Percentile	Mid	75 th Percentile	Max
\$42,315	\$48,146	\$53,957	\$59,787	\$65,579

Compensation Ratio

Compensation ratio, or compa-ratio, is an employee's salary divided by the market rate or applicable range midpoint.



- A compa-ratio below 90% is identified as below market-competitive rate
- A compa-ratio 90% - 110% is considered market competitive
- A compa-ratio above 110% is identified as above market-competitive rate

Prior to a compensation conversation, consider what the employee's current compensation ratio is and what they already know regarding their current pay range. Help the employee better understand by:

- / Providing them with their job description
- / Discussing how these key factors play an important role when determining pay
 - / Available Budget
 - / Performance
 - / Job responsibilities
 - / Education
 - / Experience
 - / Market value for specific role & skill-set



Conversation Strategy

ABCDE Technique



Advance Preparation

- Prepare what and how you will communicate to the employee
- Assess what the employee already knows and consider what questions they may have



Deal with Reactions

- Listen & acknowledge the employee's response
- Reactions can differ among employees and can include acceptance, gratitude, denial, blame, anxiety, or hopelessness.



Build Sense of Trust

- Arrange private meeting with no interruptions
- Plan sufficient time for all information to be explained & to address any questions and concerns



Encourage & Look Forward

- Identify & correct any areas of confusion
- Discuss what the decision means for the employee's future and show the way forward



Communicate Well

- Be clear and direct when explaining the pay decisions
- Recap at the end or ask the employee to repeat their understanding to avoid potential misconception



Talking Points

for compensation conversations

Provide

Compensation Background

- / Provide job description to employee
- / Discuss the pay range for their role and where they currently stand
- / Click [here](#) for more information on how pay is determined

Show the Way Forward

- / Discuss how the employee's position and pay can be reviewed again in the future
- / Provide ways for the employee's earning potential to possible increase in the future
 - / Increasing Performance
 - / Obtaining new skills
 - / When market value increases for their specific role & skill-set

Listen to Their Concerns

- / Listen to the real ask behind their questions and determine what they deem valuable
- / Pay may not be the most important thing; find out what is



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Show

Appreciation

- / Acknowledge and express appreciation for employee's work
- / Try to provide specifics on their individual contributions



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Reminder of Other Value Drivers

- / Emphasize the other benefits the organization provides (perks, pto, etc.)
- / Find out what the employee cares about aside from pay & consider what else could be offered. For example:
 - / Additional Flexibility
 - / Opportunity to work on a more challenging project or one with more visibility

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Set Goals

- / Set performance goals and discuss time-frame to check in on the progress
- / Provide clear guidance on how the employee can increase their value to the organization and potentially earn more as a result



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Scenario Examples



Use the scenario examples below to help guide you through compensation discussions for specific situations.

Scenario 1

When employee's performance doesn't merit an increase in compensation

1. Recognize and show appreciation for the contributions made so far
2. Share with them their pay range and where they currently stand
3. Communicate clearly to the employee why they are not eligible for the compensation increase
4. Provide specific goals to work on and a time-frame for checking in on the progress

Scenario 2

When employee is a high performer but unable to receive a compensation increase

1. Show appreciation for the employee's work. Be specific on their individual contributions
2. Share with them their pay range and the reason for no increase at this time (no real changes to job description/responsibilities, already at high end of salary range, salary is comparable with other employees in similar roles, budget restrictions, etc.)
3. Determine if there is something else that can be offered (flexibility or opportunity to work on a specific project)
4. Discuss how they can continue to advance within the organization and advise them their compensation can be reviewed again in the future
5. Discuss performance goals and be sure to follow up to track progress

Scenario 3

When an employee receives a compensation increase but feels it isn't enough

1. Show appreciation and emphasize their accomplishments
2. Share with them their pay range, where they currently stand, and how it compares to market value for their role and skill-set. If other co-worker's pay is brought up, advise the employee you cannot discuss any other employee's salary information with them and defer the conversation back to the specific employee's compensation
3. Re-direct the discussion to point out their key accomplishments and how those are directly linked to their pay
4. Listen to what's behind their concerns. It's possible there are other things the employee values and could possibly be offered (more flexibility, more challenging projects, other career advancement opportunities, etc.)

Scenario 4

When an employee's performance and experience results in a compensation increase

1. Show appreciation for the employee's work. Be specific on their individual contributions
2. Recognize the work that they have done and what they bring to the role
3. Share with them their pay range and placement in the salary range
4. Discuss how they can continue to advance within the organization
5. Listen to any questions that they may have